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Public Service Commission of Wisconsin
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July 23, 2008

Mr. Robert Norcross
Public Service Commission of Wisconsin
P.O. Box 7854
Madison, Wisconsin 53707-7854

RE: Wisconsin Power and Light Company Docket 5-UI-114 Comments

Dear Mr. Norcross:

In response to the Notice of Investigation regarding the Innovative Utility Ratemaking, Wisconsin Power and Light Company submits the attached comments.

Wisconsin Power and Light Company (WPL) has a long history of supporting and providing programs for energy conservation to our electric and gas customers. WPL appreciates the opportunity to comment on rate making approaches that will promote additional cost effective conservation and energy efficiency initiatives.

Please call me at (608) 458-3939 if you have questions.

Sincerely,

A handwritten signature in cursive script, appearing to read "C. A. Stanisch".

Cynthia A. Stanisch
Director Energy Efficiency and Regulatory Planning

Attachment

Wisconsin Power and Light Company
Docket 05-UI-114 Comments

Investigation on the Commission's Own Motion Regarding
Innovative Utility Ratemaking Approaches that Promote Conservation
and Efficiency Programs by Removing Disincentives that Exist
Under Current Ratemaking Policies

Survey Questions

1. Do the current rate structures of the electric and gas utilities in Wisconsin contain a net lost revenue and profit effect that is significant enough to discourage these utilities from developing and spending additional money on energy efficiency programs?

Wisconsin Power and Light Company (WPL) has a long, proud history of supporting and delivering energy efficiency and conservation programs to its electric and gas customers. The approval and use of the conservation escrow account has provided WPL the opportunity to recover program costs. However there is currently no mechanism in place to recover revenue requirements when program outcomes exceed the savings targets established when rates are set. We believe that it is necessary to meet the needs of customers who are interested in cost effectively making their homes and businesses more energy efficient while maintaining a healthy utility.

From the shareowners' perspective, kWh and therm savings attributable to successful energy efficiency programs above and beyond the target level assumed when rates are set make it more difficult for WPL to earn its allowed rate of return. Because volumetric based rates include both fixed and variable costs, as sales decrease, fixed cost recovery decreases without the corresponding reduction in fixed costs. Thus the company has lost its ability to recover costs. Increased energy efficiency spending and outcomes without a corresponding mechanism to recoup lost revenue requirements, could discourage incremental energy efficiency programming.

Efficiency is a core value at WPL. We have an interest in working with customers to help them manage their energy costs and to use our products wisely. We support a balanced approach, one that benefits both customers and company. Current rate structures may put the interests of customers and shareowners at odds.

2. Is your utility likely to propose energy efficiency spending above current levels if any disincentive to do so is removed?

Yes. WPL has historically supported utility spending on energy efficiency, and has proposed spending above state-mandated levels for both energy efficiency and renewable programs for 2009 under Act 141. However, under current rate structures, the utility remains at risk that successful energy efficiency efforts will cause the utility's revenues to fall short of its revenue requirements. A decoupling mechanism would provide a means of recovering the utility's revenue requirements which is not dependent on consumption. This would allow utilities to be more supportive of increased energy efficiency and of rate options that present more aggressive price signals for customers to conserve energy.

3. If disincentives are removed and the utility elects to spend higher than current amounts on energy efficiency is it best for (a) the utility to develop and implement the programs; (b) should that be done by Focus on Energy; (c) should it be done through a combination of the utility and Focus on Energy; or (d) should it be done by some other entity?

If a utility proposes an increase in energy efficiency spending, the utility should decide whether the development, implementation and administration of the energy efficiency programs should be handled by the utility, by another entity such as Focus on Energy, or through a collaborative venture.

4. Do utilities currently have the resources to develop and implement additional energy efficiency programs?

WPL has the resources in place for the development and implementation of its Shared Savings program offered to agriculture, commercial and industrial customers. If the program is expanded significantly, or if new programs are added, incremental resources would be required.

The resources to develop and implement residential energy efficiency programs are primarily external to the utilities as the programs are currently administered by Focus on Energy. Additional resources would be required if utilities were to provide energy efficiency programs for residential customers.

WPL and its parent Alliant Energy have significant expertise and capability to develop and implement additional programs for all customer sectors. For example, WPL's sister utility, Interstate Power and Light Company (IPL), created and implemented a highly successful community-based energy conservation initiative "E-Community", a pilot program that encouraged participating communities to promote energy efficiency, environmental responsibility, renewable energy optimization and responsible growth on a community-wide basis. Action plans were developed to educate and set goals for community efforts. The pilot served as a delivery channel for IPL's existing energy efficiency programs.

5. Should a decoupling mechanism consider only the effects of additional energy efficiency spending or should it also include the effects of other factors such as the economy and weather on actual vs. forecasted sales? If yes, please explain why.

The impacts of weather and the economy have always been present in the utility business and we have little ability to impact them. Not so with energy efficiency. To remove the disincentives associated with increased energy efficiency programming, decoupling mechanisms should not include impacts other than those introduced by energy efficiency.

6. If you answered yes to Question #5, should it be necessary for a utility to propose additional energy efficiency spending before it could seek recovery of any lost revenues due to other factors?

7. If a decoupling mechanism considers only the effects of additional energy efficiency spending, but due to weather, economic, or other factors the overall sales are equal to or greater than forecast, or if due to other factors the utility is either earning its authorized ROE or is within some range of its authorized return, should it still recover lost revenues?

It is possible that after removing the impacts of energy efficiency, other factors could result in a utility earning or nearly earning its authorized return, or, earning well below its authorized return. The same is true today without decoupling. We do not believe that adjustments should be made to factor out the impacts of weather and economic conditions.

8. Please provide what you believe to be the key components of a decoupling mechanism.

A primary component of a decoupling mechanism should be fairness to both the utility and its customers. Utilities should be given a reasonable opportunity to earn their authorized rate of return while achieving or exceeding cost-effective conservation goals for its customers.

Another key component is transparency – the mechanism should be easily understood by the customer and verifiable by the company and Commission. The frequency of any adjustments under the program should be set so that rate changes can be managed to minimize rate volatility.

9. Please provide examples of ratemaking mechanisms other than decoupling that could incent utilities to pursue additional energy efficiency spending at a reasonable cost to ratepayers.

An excellent example is WPL's Shared Savings program – an initiative that assists industrial, commercial and agricultural customers with identification and implementation of energy efficiency projects – and invests the capital to finance them while providing a return to shareowners. WPL and its business and farm customers have been working together on energy conservation and efficiency projects with WPL's Shared Savings program since 1987. Over the past ten years alone, WPL has invested \$404 million in customer facilities, saving the equivalent amount of electricity generated by a 250-megawatt power plant.

Shared Savings offers eligible customers low-cost financing up to five times the estimated annual energy dollar savings to help cover the cost of making the improvements. Participating customers repay WPL from their monthly energy savings over a contract term, and receive all the savings when the payments are complete. In many cases, the energy dollars saved by use of the new equipment result in a positive cash flow in excess of the cost of the Shared Savings payment.

In its currently pending rate case filing, WPL has proposed a performance incentive in conjunction with the Shared Savings program. To the extent WPL achieves savings impacts in excess of a threshold level, there is an opportunity to earn a performance incentive. Performance incentives could also be structured independently of Shared Savings for other energy efficiency programs and could take the form of an return on equity adder.

10. Should all customer classes be included in any mechanism that is implemented to encourage utilities to promote additional energy efficiency spending? Why or why not?

There are energy efficiency savings opportunities with all customer classes. Thus, decoupling mechanisms could be applicable to all customers. Applicability may depend on the mechanism that is implemented. Different mechanisms may need to be targeted toward different customer classes to recognize different usage patterns and different incentives.

11. If your answer to Question #10 is no, should additional energy efficiency programs only be designed to benefit only participating customer classes? Why or why not?

Energy efficiency programs benefit all customers, whether or not they participate in the programs. While participating customers receive the direct benefit of an incentive, low cost financing, grant, etc. all customers share in the system benefits that energy efficiency and conservation efforts produce.

As noted above, there are energy efficiency savings opportunities with all customer classes. To the extent practical, the cost recovery of energy efficiency program spending should be linked to the applicable class of customers. Common costs should be recovered from all customer classes in a fashion that does not distort the underlying price signals. Therefore, a balanced approach allowing for both the socialization and direct assignment of these costs is a reasonable approach to cost allocation as there are both system and customer specific benefits.

12. Do you foresee controversy in determining the amount of reduced kWh sales caused by additional energy efficiency spending and the dollar margin on the reduced sales used to determine the under recovered amount to be included in rates? Why or why not?

Yes. Verification of conservation savings is a difficult issue. If a rate design is proposed to recover lost revenues from energy efficiency impacts, WPL recommends that standards and methods for measuring conservation gains be developed. These standards should be clear, well-defined, and verifiable by an independent third party. As noted in response to question 5, adding weather and economic impacts could introduce additional complications to measurement and verification.

13. Considering the lag time between the design and implementation of energy efficiency programs and that utilities file regularly for rate reviews, would the following alternative to decoupling be useful in removing the disincentives to utilities promoting these programs? For programs that a utility is proposing prior to a rate case filing an estimate of reduced sales would be made and the test year sales forecast would be reduced accordingly. For programs developed and implemented during the utility's biennial period, a decoupling mechanism could be used to adjust for the impact of these programs until the next rate period (it would be likely that the lag time in implementing programs would make revenue adjustments relatively small).

Adjusting sales volumes for the estimated impacts of energy efficiency programs in test year forecasts could help reduce the need for decoupling adjustments. However, simply adjusting the sales forecast without a subsequent review of actual energy efficiency achieved does not fully address the risks to the utility and additionally may act as an artificial ceiling on the utility's energy efficiency efforts. Once the utility reaches the targeted sales volume, it may not be motivated to aggressively pursue additional energy efficiency savings until the next case. If the utility achieved greater energy efficiency results for a program included in the rate case, it would still experience revenue erosion and decreased ability to earn its authorized return. That would not happen with a decoupling mechanism that evaluated the actual savings compared to the levels of savings included in the test year forecast. Adjustments would be made to reflect either additional or reduced savings achievements. By including estimated savings in the forecast, the variance subject to adjustment could be minimized, thereby decreasing the likelihood of rate volatility for customers.

14. Is revenue decoupling illegal retroactive ratemaking? Why or why not?

While this question must ultimately be answered in reference to a specific decoupling mechanism, as a general proposition, revenue decoupling does not inherently involve retroactive ratemaking. A decoupling mechanism can be explicitly included in setting prospective rates in a variety of ways, in particular by either prospectively establishing a formula which is applied on a regular basis during the period for which rates are being established, or using an escrow account mechanism whereby funds are either paid out to or collected from ratepayers when rates are next adjusted. Examples of these methods presently in use include the purchased gas adjustment mechanism for gas utilities, and the existing conservation escrow itself.

15. Are you aware of mechanisms other states use to incent additional energy efficiency on behalf of their utilities that you believe would be successful in Wisconsin? If so, please identify those states?

One mechanism employed by a number of states is to provide utilities a financial incentive for successful energy efficiency program operation. For example, the utility could earn an incentive that is a share of the net utility benefits achieved by the program, subject to realizing certain side constraints related to total spending and benefits. States utilizing incentive mechanisms include California, Indiana, Minnesota, Georgia, New Hampshire, Ohio and others.

Another option implemented in Nevada is to allow ROE premiums for energy efficiency investments.

16. Does a decoupling mechanism represent a reduction in risk to the utility? If so, should that be reflected in the authorized return on equity?

Reduction in risk is dependent on the decoupling design. A decoupling mechanism focused on eliminating the disincentives associated with increased energy efficiency programming does not eliminate all business risk. Utilities would still be faced with volatility associated with a changing customer base, weather impacts, economic impacts on costs, etc. We do not believe that implementing a decoupling mechanism to address energy efficiency impacts should alter authorized rates of return. Doing so may

discourage utilities from actively pursuing aggressive, cost effective conservation and energy efficiency initiatives.

17. What process should the Commission use to establish the parameters of ratemaking approaches that promote energy efficiency; i.e., should the Commission approve utility-specific plans or establish guidelines for implementation in rate cases?

We believe that all utilities in the state should be afforded the same opportunities to promote cost effective energy efficiency. We support the establishment of general policy guidelines which permit a variety of approaches. Within the guidelines, specific utility plans would be approved in rate cases.

18. Are there important differences between gas and electric utilities to be considered when designing an incentive mechanism?

There are important differences between natural gas and electric service that should be considered.

First, gas use has been and continues to decline on a per customer basis. This is not the case with electricity use. Second, commodity costs in the natural gas business represent the largest portion of customer bills and thus, in and of themselves, provide a strong conservation incentive. Finally, natural gas commodity costs are recovered one-for-one through a balancing account mechanism which can greatly simplify the implementation of a gas service decoupling mechanism.

While decoupling mechanisms are equally valuable for the electric business, they are likely to be more complicated.